NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

ANNUAL REPORT For the Year ended December 31, 1987

CONTENTS

How the Corporation Functions 2

Directors and Officers 3

Directors' Report 4, 5, 6, 7

FINANCIAL STATEMENTS

Statement of Financial Position 8, 9

Statement of Revenue, Expenditure, and Reserve Fund 10

Statement of Changes in Financial Position 11

Auditors' Report 12

Notes to Financial Statements 13, 14, 15, 16

HOW THE CORPORATION FUNCTIONS

AUTHORITY

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 5 of the Acts of 1978–79.

PURPOSE

The Corporation's function is to provide financing of the capital requirements of municipalities, school boards and hospitals by the issuance of its securities, and relending the funds to municipal units and boards.

All municipalities and school boards must finance, and hospitals may finance their capital requirements through the Corporation, except for interim financing and certain projects for which funds may be borrowed from the Government of Canada, the Province or other municipalities within the Province.

ADMINISTRATION

The affairs of the Corporation are managed by a Board of Directors appointed by the Governor in Council. Forty percent of the members are appointed upon the recommendation of the Union of Nova Scotia Municipalities.

The administrative budget approved by the Minister of Municipal Affairs shall be cost-shared by the Province to the extent of one-half, or such larger proportion as the Governor in Council may prescribe in any year. The remainder of the approved administrative expenses is to be paid by municipalities on the basis of taxable assessments.

Support staff and resources of the Provincial Departments of Attorney General, Finance and Municipal Affairs have been provided to the Corporation.

The Corporation office is located at:	1701 Hollis Street Suite 302 Halifax, Nova Scotia
The mailing address is:	P.O. Box 850 Station M Halifax, Nova Scotia B3J 2V8
The telephone number is:	(902) 424-4590

DIRECTORS AND OFFICERS

DIRECTORS OF THE CORPORATION

Richard S. Brookfield, F.C.A.	Chairman and Chief Executive Officer
Edgar G. Cramm, M.P.A.	Director, Finance and Advisory Services Department of Municipal Affairs
Douglas McC. Carter	Mayor of Truro, Nova Scotia
R. Wendell Phinney	Mayor of Kentville, Nova Scotia
Harold A. Renouf, O.C., F.C.A.	Business Consultant, Halifax, Nova Scotia

OFFICERS OF THE CORPORATION

Secretary	R. Mark Gilbert, M.B.A. Municipal Advisor Department of Municipal Affairs
Treasurer	Shirley L. Carras, C.A.
General Counsel	James G. Spurr Financial Counsel Department of the Attorney General
Assistant Treasurer	Richard W. McAloney, C.A. Manager of Trusts and Finance Department of Finance

DIRECTORS' REPORT

MARKET CONDITIONS

Many factors had an impact on interest rates during 1987. The major factor was the steady decline of the U.S. dollar compared to other currencies. The U.S. dollar depreciated from 159.31 yen early in January to 128.25 yen by mid December. Other major areas of concern were rising oil prices in the first half of the year and a continued U.S. budget and U.S. trade imbalance during the latter half of the year.

Interest rates from January until early April were the lowest since the Corporation commenced operations in 1980. Rates began to rise reaching their peak in mid-October. The stock market crash on October 19th was followed by a rate reduction of approximately one hundred basis points.

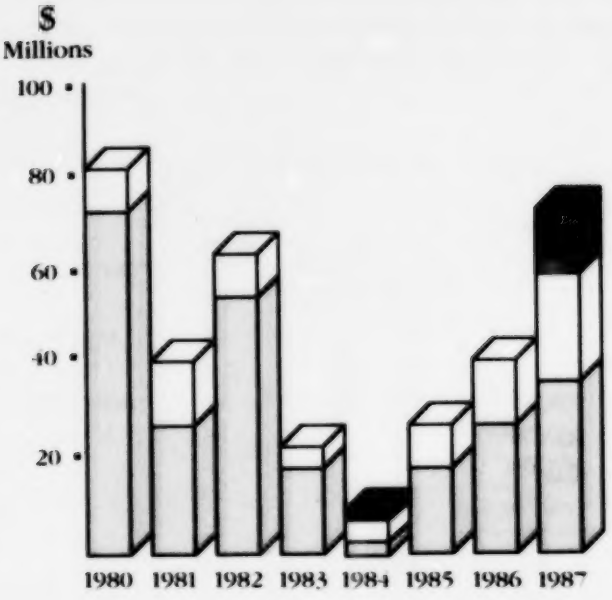
LOANS TO MUNICIPAL UNITS, SCHOOL BOARDS AND HOSPITALS

During the year fifty-one individual long-term loans were made to twenty municipal units, thirteen school boards and five hospitals totalling $69,869,407. The following details the use of these loans:

	Projects Administered by Departments of		
	Municipal Affairs	Education	Health & Fitness
Schools	$	$28,087,753	$
Hospitals			10,061,054
Water	2,171,000		
Sewer	1,680,900		
Streets	5,073,900		
Buildings	9,158,000		
Land	344,200		
Electrical Systems	441,000		
Equipment	495,800		
Recreation	876,000		
Solid Waste	5,030,900		
Sewage Treatment	2,133,000		
Transit	4,315,900		
	$31,720,600	$28,087,753	$10,061,054
Number of Loans	23	23	5

The following chart shows the long-term loans made in each year since the Corporation commenced operations in 1980.

LONG TERM LOANS MADE DURING YEAR

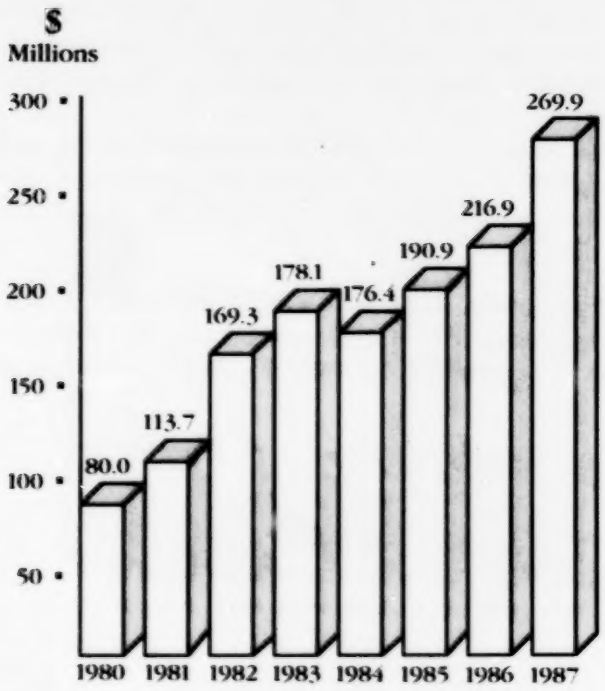


	1980	1981	1982	1983	1984	1985	1986	1987
Municipal	74.1	29.9	51.7	17.6	2.1	15.8	26.9	31.7
School Boards	5.5	8.6	10.0	2.2	8.3	12.2	13.0	28.1
Hospitals	—	—	—	—	.4	—	—	10.1
	79.6	38.5	61.7	19.8	10.8	28.0	39.9	69.9

Note: The amount of debentures issued during the year approximates the long-term loans made.

The accumulated loans to municipal units, school boards and hospitals at the end of each year are shown in the following chart.

LOANS TO MUNICIPAL UNITS, SCHOOL BOARDS AND HOSPITALS AS AT DECEMBER 31



Note: The amount of debentures outstanding at the end of each year approximates the loans outstanding.

BORROWING PROGRAM

Funds for the 1987 loans were raised through two issues in the domestic Canadian market totalling $69,600,000. In May $35.0 million was raised by a ten year private serial issue. During December a further $34.6 million of public ten year serials was issued. These debentures had interest rate coupons ranging from 7¼% to 10¾%.

TRUST FUNDS UNDER ADMINISTRATION

The Corporation administers two Sinking Funds on behalf of municipal units and school boards. The first relates to loans of $35,000,000 to ten units maturing on December 22, 1996. The second fund related to seven loans totalling $10,000,000, of which one loan of $199,000 matured on July 12, 1987 and the balance will mature on July 12, 1992. These two Sinking Funds are to be applied to the repayment of these loans at maturity.

Following is a summary of the Sinking Funds for the year ended December 31, 1987.

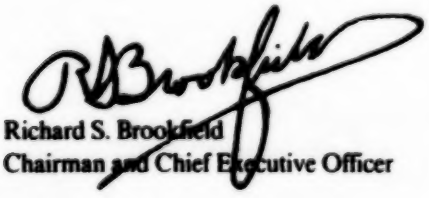
	Trust #1	Trust #2
Balance at January 1, 1987, as restated	$7,064,585	$3,192,426
Amount paid on maturity of loan		(212,009)
Amounts paid to Nova Scotia Municipal Finance Corporation	(68,402)	
Sinking fund payments received	1,050,000	620,099
Income earned in 1987	867,449	392,901
Balance at December 31, 1987	$8,913,632	$3,993,417

COST OF ADMINISTRATION

The Province of Nova Scotia in 1987 continued its previous practice of assuming all of the administrative expenses of the Corporation.

ACKNOWLEDGEMENTS

The Board of Directors wishes to express its appreciation for the continuing financial assistance provided by the Provincial Government. Special mention should be made of the excellent co-operation received from the Departments of the Attorney General, Education, Finance, Health & Fitness and Municipal Affairs. Each of these Departments has contributed the services of staff members which have been of great assistance to the Corporation.



Richard S. Brookfield
Chairman and Chief Executive Officer

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1987

ASSETS

	1987	1986 (As restated Note 2)
CURRENT ASSETS		
Cash	$ 12,743	$ 33,495
Short-term investments, at cost which approximates market value	3,725,000	3,356,000
Accrued interest receivable	6,010,570	5,990,217
Principal due within one year on loans to municipal units	23,788,049	17,093,190
	33,536,362	26,472,902
LONG-TERM ASSETS		
Loans to municipal units (note 1)	269,484,218	216,907,000
Less principal included in current assets	23,788,049	17,093,190
	245,696,169	199,813,810
DEFERRED CHARGES		
Discount on debenture debt	1,258,904	1,257,642
Less accumulated amortization	802,772	713,701
	456,132	543,941
	$279,688,663	$226,830,653
TRUST FUND ASSETS (note 2)	$ 12,907,049	$ 10,257,010

Approved by the Board

Director

Director

LIABILITIES AND EQUITY

	1987	1986 (As restated Note 2)
CURRENT LIABILITIES		
Accounts payable	$ 91,368	$ 176,045
Accrued interest payable	6,662,092	6,704,126
Principal due within one year on debenture debt	23,503,000	16,912,000
	30,256,460	23,792,171
LONG-TERM DEBT		
Debenture debt (note 3)	269,543,000	216,855,000
Less principal included in current liabilities	23,503,000	16,912,000
	246,040,000	199,943,000
DEFERRED CREDITS		
Discount on loans to municipal units	1,261,795	1,261,760
Less accumulated amortization	821,797	739,636
	439,998	522,124
EQUITY		
Reserve Fund	2,952,205	2,573,358
	$279,688,663	$226,830,653
TRUST FUNDS UNDER ADMINISTRATION (note 2)	$ 12,907,049	$ 10,257,010

STATEMENT OF REVENUE, EXPENDITURE AND RESERVE FUND

YEAR ENDED DECEMBER 31, 1987

	1987	1986
REVENUE		
Interest on loans to municipal units	$ 28,596,068	$ 25,983,828
Amortization of discount on loans to municipal units	85,365	102,658
Interest on short-term investments	242,684	207,550
Current discount on loans to municipal units	606,161	376,416
Gain on sale of securities	—	13,854
Grant, Province of Nova Scotia for administrative expenses	198,267	206,882
	29,728,545	26,891,188
EXPENDITURE		
Interest on debenture debt and short-term loans	28,651,544	25,983,732
Amortization of discount on debenture debt	89,070	104,510
Interest on bank loan	1,185	12,388
Debenture issue expenses	409,632	274,054
Administrative expenses (note 4)	198,267	206,882
	29,349,698	26,581,566
NET REVENUE, BEING AN INCREASE IN RESERVE FUND	378,847	309,622
RESERVE FUND AT BEGINNING OF YEAR	2,573,358	2,263,736
RESERVE FUND AT END OF YEAR	$ 2,952,205	$ 2,573,358

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1987

	1987	1986
CASH DERIVED FROM		
Net revenue being an increase in Reserve Fund	$ 378,347	$ 309,622
Add (deduct) items not involving cash		
Amortization of discount on loans to municipal units	(85,365)	(102,658)
Amortization of discount on debenture debt	89,070	104,510
Gain on sale of securities	—	(13,854)
	382,552	297,620
Issue of debentures of $69,600,000 net of discounts of $1,261 (1986, $39,800,000 net of $95,465)	69,598,739	39,704,535
Principal received on loans to municipal units	17,093,190	13,730,396
Proceeds on sale of securities	—	196,410
Payout of sinking fund loan	199,000	—
Change in non-cash working capital	—	547,824
	87,273,481	54,476,785
CASH APPLIED TO		
Loans of $69,869,408 to municipal units on security of debentures, net of discounts of $3,239 (1986, $39,896,531 net of $95,784)	69,866,169	39,800,747
Principal payments on debenture debt	16,912,000	13,496,000
Change in non-cash working capital	147,064	—
	86,925,233	53,296,747
INCREASE IN CASH POSITION	348,248	1,180,038
Cash position at beginning of year	3,389,495	2,209,457
CASH POSITION AT END OF YEAR	$ 3,737,743	$ 3,389,495

Cash position is defined as cash plus short-term investments less short-term bank indebtedness.

AUDITORS' REPORT

To the Chairman and Members of the Board of Directors
Nova Scotia Municipal Finance Corporation

We have examined the statement of financial position of the Nova Scotia Municipal Finance Corporation as at December 31, 1987 and the statements of revenue, expenditure and reserve fund and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of amortizing certain bond discounts in the Trust Fund Assets and Trust Funds under Administration, as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Halifax, Nova Scotia
February 19, 1988

Thorne Ernst + Whinney
Chartered Accountants

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1987

GENERAL

Created by the Municipal Finance Corporation Act, which was proclaimed on July 31, 1979, the Corporation began operations on January 1, 1980 and its fiscal year-end is December 31. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises and hospitals through a central borrowing authority.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Discounts on long-term debt and loans to municipal units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.

(b) The Reserve Fund was created from interest earnings on funds which had been advanced by the Province of Nova Scotia and have since been repaid and interest on other surplus monies available from time to time, as well as from discounts on loans to municipal units. The purpose of the Reserve Fund is to cover time lags between the payment dates of the Corporation's obligations and the dates payments are received from municipal units, to provide interest rate stabilization, and to cover differentials in interest and amortization of discounts in loan operations.

1. LOANS TO MUNICIPAL UNITS

(a) Loans to municipal units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Provisions exist for the recovery of any defaults by municipalities, therefore an allowance for doubtful accounts is not required.

(b) Principal payments receivable in each of the next five years are:

1988	$23,788,049
1989	23,265,851
1990	23,330,176
1991	22,878,087
1992	32,037,480

2. TRUST FUNDS UNDER ADMINISTRATION

Trust Fund Assets totalling $12,907,049 (1986, $10,257,010) are held on behalf of certain municipal units and school boards, and represent sinking funds to be applied to the repayment of their related outstanding debenture debt at maturity.

During the 1987 year the Corporation retroactively changed its accounting policy regarding the amortization of discounts on deep discount bonds from the straight-line method to the effective yield method. The total discount to be recognized will not change as a result of this change in method, however, the timing of the revenue recognition will change. This change in accounting policy results in a decrease in the 1986 Trust Fund Assets and Trust Funds under Administration of $421,703.

3. DEBENTURE DEBT

(a) The debenture debt outstanding at December 31, 1987 is in Canadian funds and is fully guaranteed by the Province of Nova Scotia.

Series	Date Issued	Maturity Date	Interest Rate	1987	1986
A	Jan. 4/80	1981 to 2000	11.250	$ 16,250,000	$ 17,500,000
B	July 2/80	1981 to 1990	11.500	2,400,000	3,200,000
B	July 2/80	1991 to 2000	12.000	7,000,000	7,000,000
C	Dec. 19/80	1981 to 2000	13.375	16,250,000	17,500,000
D	Dec. 19/80	1981 to 2000	13.375	6,500,000	7,000,000
E	Sept. 10/81	1982 to 1991	17.500	2,078,000	2,420,000
F	Dec. 22/81	1996	15.000	35,000,000	35,000,000
G	Jan. 28/82	1983 to 1994	15.750	14,500,000	16,600,000
H	July 12/82	1992	15.500	10,000,000	10,000,000
J	Nov. 23/82	1983 to 1987	12.750	—	2,330,000
J	Nov. 23/82	1988 to 1992	13.000	10,600,000	10,600,000
K	Sept. 7/83	1986 to 1988	11.250	1,500,000	3,000,000
K	Sept. 7/83	1989 to 1990	11.750	2,600,000	2,600,000
K	Sept. 7/83	1991 to 1993	12.250	3,800,000	3,800,000
K	Sept. 7/83	1994 to 1998	12.750	3,500,000	3,500,000
L	Nov. 9/83	1984 to 1988	11.250	210,000	420,000
L	Nov. 9/83	1989 to 1993	12.000	1,050,000	1,050,000
M	Aug. 28/84	1985 to 1988	13.750	1,000,000	2,000,000
M	Aug. 28/84	1989 to 1992	14.000	4,000,000	4,000,000
M	Aug. 28/84	1993 to 1999	14.250	2,500,000	2,500,000
N	Apr. 2/85	1987 to 1988	11.250	1,215,000	2,430,000
N	Apr. 2/85	1989	11.500	1,215,000	1,215,000
N	Apr. 2/85	1990 to 1994	11.750	4,855,000	4,855,000
N	Apr. 2/85	1995 to 1996	12.000	1,390,000	1,390,000
N	Apr. 2/85	1997 to 2000	12.250	1,865,000	1,865,000
N	Apr. 2/85	2001 to 2004	12.375	1,640,000	1,640,000
N	Apr. 2/85	2005	12.500	1,290,000	1,290,000
Balance carry forward				154,208,000	166,705,000

3. DEBENTURE DEBT (continued)

Series	Date Issued	Maturity Date	Interest Rate	1987	1986
Balance carry forward				$154,208,000	$166,705,000
P	Dec. 11/85	1987	9.500	—	1,050,000
P	Dec. 11/85	1988	9.750	1,050,000	1,050,000
P	Dec. 11/85	1989	10.000	750,000	750,000
P	Dec. 11/85	1990 to 1992	10.250	2,050,000	2,050,000
P	Dec. 11/85	1993 to 1994	10.500	1,300,000	1,300,000
P	Dec. 11/85	1995 to 1997	10.750	1,650,000	1,650,000
P	Dec. 11/85	1998 to 2000	11.000	2,500,000	2,500,000
Q	July 22/86	1987 to 1988	9.250	2,210,000	4,420,000
Q	July 22/86	1989 to 1990	9.500	4,422,000	4,422,000
Q	July 22/86	1991 to 1995	9.750	11,066,000	11,066,000
Q	July 22/86	1996	10.000	6,292,000	6,292,000
R	Nov. 5/86	1987	9.250	—	1,155,000
R	Nov. 5/86	1988 to 1989	9.500	2,310,000	2,310,000
R	Nov. 5/86	1990 to 1992	9.750	3,464,000	3,464,000
R	Nov. 5/86	1993 to 1996	10.000	6,671,000	6,671,000
S	May 14/87	1988	7.250	3,373,000	—
S	May 14/87	1989	7.625	3,374,000	—
S	May 14/87	1990	7.750	3,375,000	—
S	May 14/87	1991	8.000	3,376,000	—
S	May 14/87	1992	8.125	3,377,000	—
S	May 14/87	1993	8.250	3,283,000	—
S	May 14/87	1994	8.375	3,284,000	—
S	May 14/87	1995 to 1996	8.500	6,571,000	—
S	May 14/87	1997	8.750	4,987,000	—
T	Dec. 15/87	1988	9.000	3,369,000	—
T	Dec. 15/87	1989	9.500	3,369,000	—
T	Dec. 15/87	1990	9.750	3,369,000	—
T	Dec. 15/87	1991	10.250	3,368,000	—
T	Dec. 15/87	1992 to 1993	10.375	6,500,000	—
T	Dec. 15/87	1994 to 1995	10.500	6,263,000	—
T	Dec. 15/87	1996 to 1997	10.750	8,362,000	—
				$269,543,000	$216,855,000

Interest is payable semi-annually.

(b) Principal payments due in each of the next five years are as follows:

1988	$23,503,000
1989	23,076,000
1990	23,159,000
1991	22,752,000
1992	32,101,000

4. ADMINISTRATIVE EXPENSES

	1987	1986
Salaries and benefits	$151,157	$177,786
Travel	4,034	3,722
Equipment and maintenance	17,329	946
Printing	1,940	1,529
Postage	1,355	1,148
Telephone	3,135	2,730
Stationery and supplies	1,557	1,399
Professional services	8,000	7,995
Bank charges	2,471	2,229
Directors' fees and expenses	2,694	2,777
Other	4,595	4,621
	$198,267	$206,882

5. INCOME TAXES

The Corporation is not subject to Provincial or Federal Income Taxes.

6. COMPARATIVE FIGURES

The 1986 balance of the Trust Fund Assets and Trust Funds under Administration has been restated due to the retroactive application of a change in accounting policy regarding amortization of bond discounts. (See note 2)